

USDA REPORT TO CONGRESS ON THE DAIRY PROMOTION PROGRAMS 2002

INTRODUCTION

The enabling legislation of both the producer and processor dairy promotion programs (7 U.S.C. 4514 and 7 U.S.C. 6407) requires the U.S. Department of Agriculture (USDA) to submit an annual report to the House Committee on Agriculture and the Senate Committee on Agriculture, Nutrition, and Forestry by July 1. The producer and processor programs are conducted under the Dairy Promotion and Research Order (Dairy Order) (7 CFR 1150) and the Fluid Milk Promotion Order (Fluid Milk Order) (7 CFR 1160), respectively. This report includes a description of activities for both the producer and processor programs and summarizes activities of their national integrated fluid milk program. An accounting of funds collected and spent, an independent analysis of the effectiveness of the advertising campaigns of the two programs, and an industry commissioned review of fluid milk markets and program operations are included. This report addresses program activities for the fiscal period January 1- December 31, 2001, of the Dairy Promotion Program and the Fluid Milk Processor Promotion Program, unless otherwise noted.

PRODUCER DAIRY PROMOTION PROGRAM

The Dairy Production Stabilization Act of 1983 (Dairy Act) (7 U.S.C. 4501 *et seq.*) authorized a national producer program for dairy product promotion, research, and nutrition education as part of a comprehensive strategy to increase human consumption of milk and dairy products. Dairy farmers fund this self-help program through a mandatory 15-cent per hundredweight assessment on all milk produced in the contiguous 48 States and marketed commercially. Dairy farmers administer the national program through the National Dairy Promotion and Research Board (Dairy Board). The Dairy Act provides that dairy farmers can direct up to 10 cents per hundredweight of the assessment for contributions to qualified State or regional dairy product promotion, research, or nutrition education programs (Qualified Programs).

The Dairy Order became effective on May 1, 1984. The Dairy Act required the Secretary of Agriculture to conduct a referendum among dairy farmers by September 30, 1985, to determine if a majority favored continuation of the program. Nearly 90 percent of the dairy farmers voting in the August-September 1985 referendum favored continuing the program. USDA held a second referendum on the dairy promotion program in August 1993. Approximately 71 percent of the dairy farmers who voted in the referendum favored continuing the program. USDA will hold future referenda at the direction of the Secretary or upon the request of at least 10 percent of the affected dairy farmers.

The Dairy Board portion of the revenue from the 15-cent per hundredweight producer assessment was \$83.6 million for 2001. Qualified Programs revenue from the producer assessment was \$170 million for 2001. Revenue from assessments for the Dairy Board and many of the Qualified Programs is integrated through a joint process of planning and program implementation so that the programs on the national, regional, State, and local level work together.

FLUID MILK PROCESSOR PROMOTION PROGRAM

The Fluid Milk Promotion Act of 1990 (Fluid Milk Act) (7 U.S.C. 6401 *et seq.*) authorized the establishment of a national processor program for fluid milk promotion and education. The Fluid Milk Order became effective December 10, 1993. The Secretary appointed the initial National Fluid Milk Processor Promotion Board (Fluid Milk Board) on June 6, 1994.

Processors administer this program through the Fluid Milk Board. Processors marketing more than 3,000,000 pounds of fluid milk per month, excluding those fluid milk products delivered to the residence of a consumer, fund this program through a 20-cent per hundredweight assessment on fluid milk processed and marketed in consumer-type packages in the contiguous 48 States and the District of Columbia.

The Fluid Milk Board's revenue for the January 1 through December 31, 2001, period was \$109 million. Approximately 69 percent of program expenditures was used for fluid milk advertising, 9 percent for promotions, and about 9 percent for public relations. The remaining funds were used for research and general and administrative expenses.

The Fluid Milk Act required the Secretary to conduct a referendum among fluid milk processors to determine if a majority favored implementing the program. In the October 1993 referendum, 72 percent of the processors voted to approve the implementation of the fluid milk program. These processors represented 77 percent of the volume of fluid milk products marketed by all processors during May 1993, the representative period set for the referendum. USDA held a continuation referendum in February-March 1996. Of the processors voting in that referendum, nearly 65 percent favored continuation of the program. These processors represented 71 percent of the volume of fluid milk products marketed by all processors during September 1995, the representative period set for the referendum. In November 1998, USDA held a continuation referendum at the request of the Fluid Milk Board. Fluid milk processors voted to continue a national program for fluid milk promotion established by the Fluid Milk Order. Of the processors voting in this referendum, 54 percent favored continuation of the order. These processors represented 86 percent of fluid milk products processed and marketed by fluid milk processors voting in the referendum. The Fluid Milk Act and Order state that USDA will hold future referenda upon the request of the Fluid Milk Board, processors representing 10 percent or more of the volume of fluid milk products marketed by those processors voting in the last referendum, or when called by the Secretary.

NATIONAL INTEGRATED FLUID MILK PROGRAM

Dairy Management Inc. (DMI) – the staffing organization for the Dairy Board – and the Fluid Milk Board completed the integration of their fluid milk programs in January 1999, and this continued in 2001. The integration plan has enabled the Fluid Milk Board to fulfill the promotion program coordination requirements of the Fluid Milk Act. The funding level of the integrated program totaled approximately \$163 million in 2001, with about \$67 million from DMI and State and regional organizations and about \$96 million from the Fluid Milk Board. The integrated plan, which includes both planning and implementation, continues to be research-based, message-focused, and jointly managed.

A summary of the national integrated fluid milk program for fiscal year 2001 follows the Fluid Milk Board section in Chapter 1 of this report.

USDA OVERSIGHT AND INDEPENDENT ANALYSIS

USDA has oversight responsibility for both dairy promotion programs. The oversight objectives ensure that the Boards and the Qualified Programs properly account for all program funds and that they administer the programs in accordance with their respective Acts and Orders. USDA also has responsibility for obtaining an independent evaluation of the programs. The Boards reimburse the Secretary, as required by the Acts, for USDA's administrative costs of program oversight and for the independent analysis.

Chapter 1 of this Report describes the activities of the Dairy Board, Qualified Programs, and the Fluid Milk Board. Chapter 2 reviews the oversight activities of USDA. Chapter 3 reports the results of the independent analysis of the effectiveness of the programs conducted by Cornell University. Chapter 4 presents the industry commissioned fluid milk market and program operations review.